Commonwealth Holiday Inns of Canada Limited
Annual Report, 1969

International Inns of . . .

Commonwealth Holiday Inns of Canada Limited

Commonwealth Holiday Inns of Canada Limited is participating in the global expansion of Holiday Inns International, having progressed from the opening of its first Inn at London, Canada in 1962 to 24 North American and Caribbean Inns.

NORTH AMERICA

22 Inns are open
19 Inns are under planning or construction

CARIBBEAN

*2 Inns are open (Antigua and Barbados)
*2 Inns (St. Lucia and Grenada) will open in 1970
10 Inns are under planning or construction including

Guadeloupe	St. Kitts
Trinidad	Montserrat
Tobago	Georgetown, Guyana
Barbados Airport	Martinique
St. Croix (2)	

EUROPE

United Kingdom

1 Inn (Plymouth) will open in 1970

6 Inns are under planning or construction including

Bristol	Bradford
Slough	Coventry
London	Edinburgh

Your Company has acquired rights to build 15 Holiday Inns in the United Kingdom.

Portugal

1 Inn (Madeira) is under planning.

already commenced. As this venture develops, shareholders will be kept informed.

OUTLOOK

United Kingdom

The Company has agreed, subject to the execution of formal documents, with Town and Commercial Properties Limited, a large public company in the United Kingdom, that Town and Commercial will build and equip the Company's inns in the United Kingdom and lease them to the Company for long periods on terms which the Company considers beneficial. Construction has commenced at Plymouth and will start soon at Bristol. Active negotiations are currently in progress related to other sites including London.

Ontario

The Company has acquired lands adjacent to the Toronto International Airport and is in the process of acquiring lands in Sarnia, Belleville and Oshawa. The Toronto Don Valley Inn with 290 rooms is scheduled for completion about June 20th. The expansion of the Toronto East Inn (Warden Avenue) is completed and available for the busy Summer season. The Hespeler-Galt Inn on Highway 401 is scheduled to open this Fall and plans are being completed for the expansion of inns at London, St. Catharines and Kingston.

Caribbean

In addition to the twelve franchises previously granted by Holiday Inns of America, Inc., the Company has acquired two franchises for the island of St. Croix (U.S. Virgin Islands). Construction of one of these inns is expected to commence in early Summer. A Summer construction start is also planned for an inn on the island of Guadeloupe and work is now in progress at St. Lucia and Grenada. The Barbados Inn opened in March and has been well received by the public. Negotiations for other sites are in progress and announcements will be made in due course.

In summary, operating results and the rapid development of the expansion program are most gratifying. Barring unforeseen delays, the Company will have in operation by the end of the current fiscal year about 3,600 rooms and will have under construction an additional 2,600 rooms, including 750 rooms for the Toronto Civic Square Inn which is scheduled to open in 1971.

On behalf of the Board of Directors,

D. Rubinoff,
President.

June 3rd, 1969.

AR46

INNS IN OPERATION

ONTARIO

Fort William - Port Arthur	Oakville
Kenora - July 1969	Toronto West
Windsor	Toronto East
Chatham	Toronto Don Valley - June 1969
London South	Barrie
London Downtown	Huntsville -
Kitchener	Peterborough
Brantford	Kingston
Hamilton	Ottawa
St. Catharines	

MICHIGAN

Pontiac	Port Huron

CARIBBEAN

Barbados	Antigua

PLANNED OR UNDER CONSTRUCTION

ONTARIO

Sarnia	Belleville
Toronto Civic Square	Ottawa Downtown
Toronto Yorkdale	Sudbury
Toronto Airport	Hespeler - Galt
Oshawa	

CARIBBEAN

St. Lucia	Martinique
Grenada	Guadeloupe
Trinidad	Montserrat
Tobago	St. Kitts
Barbados Airport	St. Croix (2)

UNITED KINGDOM

Plymouth	London
Bristol	Edinburgh
Slough	

Commonwealth Holiday Inns of Canada Limited

INTERIM REPORT

FOR THE SIX MONTHS ENDED APRIL 30, 1969

Holiday Inn INTERNATIONAL
THE WORLD'S INNKEEPER

TRADE MARK REGISTERED

COMMONWEALTH Holiday Inns
OF CANADA LIMITED

TO THE SHAREHOLDERS:

Continuing growth in sales and earnings set new records for the six month period ended April 30th, 1969.

OPERATIONS

Sales at $9,956,100 were up 46% from the $6,829,100 reported for the comparable period last year. Historically the Company has reported a loss during the first six months of its fiscal year due to the seasonal nature of the hotel business. I am pleased, however, to report a profit of $162,400 after full provision for income taxes. This compares with a loss of $118,600 for the first six months of 1968. Cash flow generated from operations amounted to $963,500 up 215% of the like period's cash flow in 1968.

These significant improvements are reflected in the comparative operating results for twelve months ended April 30th included in this report. Sales at $20,781,400 increased by 41% from the previous period while net earnings more than doubled.

To enable shareholders better to assess the progress of the Company, which is affected by seasonal factors, it will be our practice to include in each interim report a comparative statement of earnings for the twelve month period ended with that quarter. This should not be confused with the annual audited statement of earnings for the Company's fiscal year which ends on October 31st. Historically the major portion of the Company's profit is earned during the last half of its fiscal year.

NEW DEVELOPMENTS

Finance

The Company has arranged, with the assistance of Holiday Inns of America, Inc., to borrow from a bank $5,500,000 due in November 1972. These funds will enable the Company to accelerate its expansion program. In addition, your Company has arranged to refinance its London Downtown Inn by selling it to an investor and leasing it back. The funds, about $900,000 released through this transaction will further assist the growth of the Company.

New Venture

In addition to its hotel sites the Company now owns about one hundred acres of land in the Caribbean with beach frontage and is engaged in acquiring more. Management believes that the development of such lands, including the construction and sale of condominiums, will add significantly to the earnings of your Company. This area of activity is intended to be operated under the name Commonwealth Holiday Estates. The development of our Barbados land has

CONSOLIDATED STATEMENT OF EARNINGS — Unaudited

	Six Months Ended April 30th 1969	Six Months Ended April 30th 1968	Change	Twelve Months Ended April 30th 1969	Twelve Months Ended April 30th 1968	Change
Sales	**$9,956,100**	$6,829,100	+ 46%	**$20,781,400**	$14,764,300	+ 41%
Earnings (Loss) Before Taxes	**326,100**	(232,100)		**1,894,900**	907,300	+109%
Provision For Income Taxes	**163,700**	113,500		**1,001,400**	483,300	
Net Earnings (Loss)	**162,400**	(118,600)		**893,500**	436,500	+105%
Dividends On Preference Shares	**27,500**	27,600		**55,100**	55,300	
Earnings Available To Common Shareholders	**134,900**	—		**838,400**	381,200	+120%
Per Share — on average outstanding (Note 2)	**.06**	—		**.38**	.19	+100%
Cash Flow From Operations (Note 1)	**963,500**	306,000	+215%	**3,032,300**	1,912,400	+ 59%
Per Share — on average outstanding (Note 2)	**.42**	.15	+180%	**1.39**	.93	+ 49%
Average Common Shares Outstanding	**2,315,042**	2,050,063		**2,181,462**	2,050,063	

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS — Unaudited

	Six Months Ended April 30th 1969	Six Months Ended April 30th 1968
Working Capital (Deficit) At Beginning Of Period	**$ 592,000**	$ (963,800)
SOURCE OF FUNDS:		
Net Earnings	**162,400**	(118,600)
Add — Non-Cash Charges		
Depreciation And Amortization	**637,400**	538,100
Deferred Income Taxes	**163,700**	(113,500)
	963,500	306,000
Bank Loans (to be repaid from proceeds of committed mortgage loans)	**1,952,600**	538,600
Mortgages (net of amounts repaid from proceeds)	—	534,900
Issuance And Sale Of Capital Stock	**3,795,300**	—
	6,711,400	1,379,500
APPLICATION OF FUNDS:		
Purchase Of Fixed Assets	**4,667,300**	2,343,500
Deferred Expenses	**249,100**	8,100
Reduction Of Long Term Debt	**3,796,300**	—
Dividends On Preference Shares	**27,500**	27,600
Expenses Of Share Issue	**110,700**	—
Franchises	**10,800**	—
	8,861,700	2,379,200
Working Capital (Deficit) At End Of Period (Note 3)	**$ (1,558,300)**	$(1,963,500)

NOTES:
1. Cash flow consists of net earnings before dividends on preference shares plus non-cash charges for depreciation, amortization and deferred taxes.
2. No account has been taken in this calculation of conversion privileges attached to the remaining 4,150 preference shares or warrants and options for 254,250 common shares which could have been, but were not, exercised. For particulars of warrants which may be exercised in future years see Note 7 to the latest audited financial statements for the year ended October 31st, 1968, previously sent to shareholders, an extra copy of which will be supplied to any shareholder on request.
3. Since April 30th, 1969 the Company has arranged a term loan of $5,500,000 which when drawn will be in addition to working capital.
4. There were 2,411,188 common shares outstanding at April 30th, 1969.

CONTENTS

REGISTRAR AND TRANSFER AGENT

The Registrar for the Common Shares and the Convertible Preference Shares is Canada Permanent Trust Company at its principal offices at Toronto, London, Winnipeg and Vancouver. The Transfer Agent for the Common Shares and the Convertible Preference Shares is The Royal Trust Company at its principal offices at Toronto, London, Winnipeg and Vancouver.

Financial Highlights year ended October 31

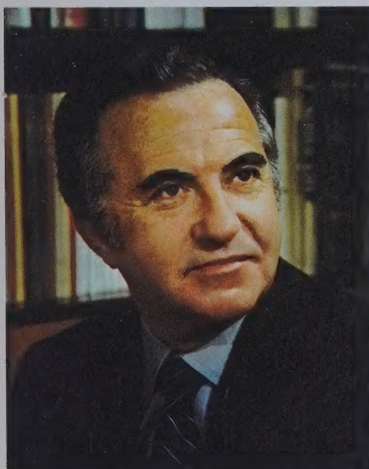
	1969	1968	Change
SALES	$25,431,843	$17,654,355	+44%
EARNINGS BEFORE TAXES	$ 2,509,597	$ 1,336,659	+88%
Per Dollar of Sales	9.9c	7.6c	
PROVISION FOR INCOME TAXES*	$ 1,333,000	$ 695,000	+92%
Per Dollar of Sales	5.3c	4.0c	
NET EARNINGS	$ 1,176,597	$ 641,659	+83%
Per Dollar of Sales	4.6c	3.6c	
DIVIDENDS ON PREFERENCE SHARES	$ 54,437	$ 55,250	
EARNINGS AVAILABLE TO COMMON SHAREHOLDERS	$ 1,122,160	$ 586,409	+91%
Per Share**	48c	29c	+66%
CASH FLOW FROM OPERATIONS***	$ 3,876,526	$ 2,374,762	+63%
Per Share**	$ 1.65	$ 1.16	+42%
ADDITIONS TO PLANT AND EQUIPMENT	$10,875,494	$ 7,372,722	+48%
TOTAL ASSETS AT YEAR END	$36,030,849	$27,051,643	+33%

*No income taxes were payable in 1969 and 1968, although full provision was made for taxes on a deferred basis.

**Calculated on average number of common shares outstanding, 2,363,550 for 1969 and 2,050,063 for 1968. No account has been taken in this calculation of the conversion privileges attached to the preference shares convertible into 415,000 common shares and warrants for 250,000 common shares outstanding during 1969 which could have been, but were not, exercised. For particulars of these and other warrants exercisable in future years, see note 7 of the financial statements.
There were 2,411,488 common shares outstanding at October 31, 1969.

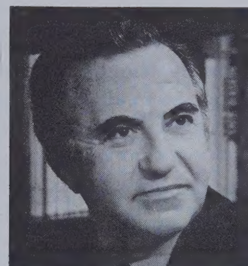
***Cash flow consists of net earnings before dividends on preference shares plus non-cash charges for depreciation, amortization and deferred taxes.

Chairman's Report to th



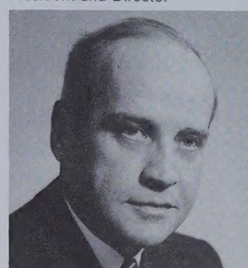
On behalf of the Board of Directors, I am pleased to submit the Annual Report of the Company together with the Audited Consolidated Financial Statements for the year ended October 31, 196

In the past year operating results have significantly surpassed those of the prior year fulfilling the forecast made to you in February 1969. Operating revenues and net income for the year ended October 31, 1969 were the highest in the Company's history at $25,431,843 and $1,176,597 respectively. This represents an increase of 44% in revenue and an increase of 83% in net income from the previous year when the comparative operating revenues and net income were $17,654,355 and $641,659 respectively. Earnings per average common share outstanding amounted to 48c in 1969 compare to 29c in 1968. The results for 196 reflect the issuance and sale of 350,000 common shares during the month of December 1968. Cash flow generated from operations in the 1969 financial year reached $3,876,526 or $1.65 per common share compared with $2,374,762 o $1.16 per share in 1968.



DAVID RUBINOFF
Chairman of the Board, President and Director

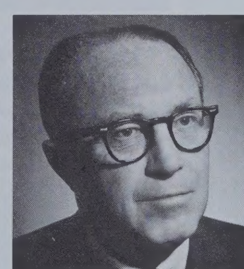
ERNEST B. FLETCHER
Executive Vice President and General Manager—Director



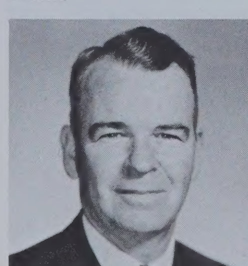
ALBERT E. SHEPHERD, Q.C.
Senior Vice President and Director

DAVID B. WELDON
Director

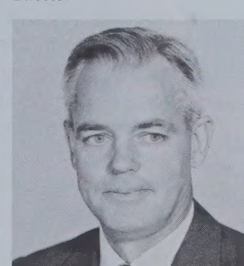
RICHARD W. YANTIS
Director



FREDERICK W. P. JONES
Director



LUDWICK M. CLYMER
Director



FRANK W. ADAMS
Director

DIRECTORS

Frank W. Adams
Senior Vice President
Holiday Inns, Inc.
MEMPHIS, Tennessee

Ludwick M. Clymer
Senior Vice President
Holiday Inns, Inc.
MEMPHIS, Tennessee

Ernest B. Fletcher *
Executive Vice President
and General Manager
Commonwealth Holiday Inns
of Canada Limited
LONDON, Ontario

Frederick W. P. Jones *
Professor, School of Business
Administration
University of Western Ontario
LONDON, Ontario

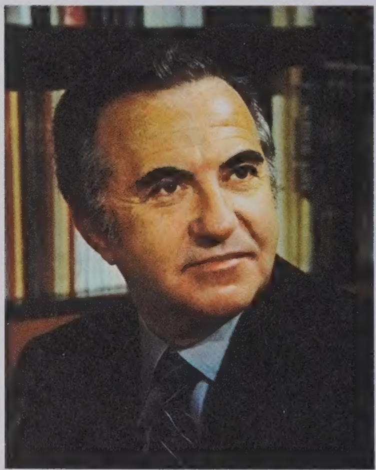
David Rubinoff *
Chairman of the Board and President
Commonwealth Holiday Inns
of Canada Limited
LONDON, Ontario

Albert E. Shepherd, Q.C. *
Senior Vice President
Commonwealth Holiday Inns
of Canada Limited.
Barrister and Solicitor
Partner of Shepherd, McKenzie,
Plaxton, Little & Jenkins
LONDON, Ontario

David B. Weldon *
President
Midland-Osler Securities Limited
LONDON, Ontario

Richard W. Yantis
Director
Avco Corporation New York,
Avco Delta Corporation New York,
Avco Delta Corporation
Canada Limited

*Member of the Executive Committee



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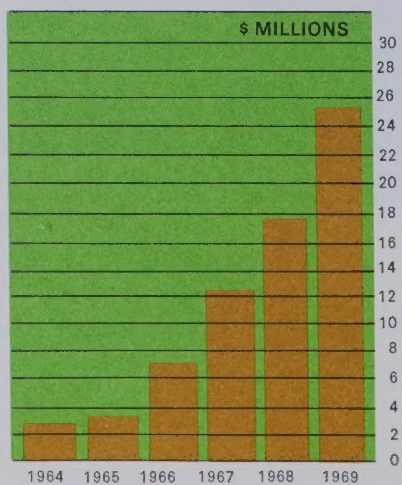
In the past year operating results have significantly surpassed those of the prior year fulfilling the forecast made to you in February 1969. Operating revenues and net income for the year ended October 31, 1969 were the highest in the Company's history at $25,431,843 and $1,176,597 respectively. This represents an increase of 44% in revenue and an increase of 83% in net income from the previous year when the comparative operating revenues and net income were $17,654,355 and $641,659 respectively. Earnings per average common share outstanding amounted to 48c in 1969 compared to 29c in 1968. The results for 1969 reflect the issuance and sale of 350,000 common shares during the month of December 1968. Cash flow generated from operations in the 1969 financial year reached $3,876,526 or $1.65 per common share compared with $2,374,762 or $1.16 per share in 1968.

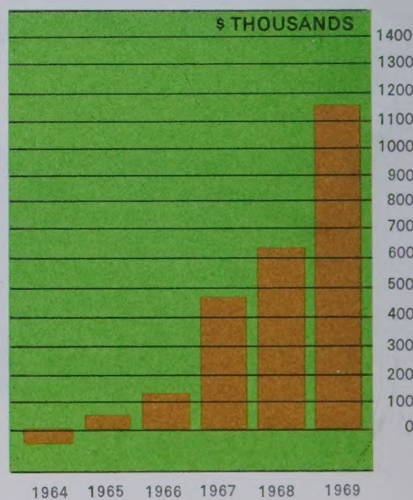
These gratifying results have been achieved in the face of a severe world tightening of the supply of money, rising interest rates and other costs. It is the intention of your management to continue aggressively the Company's immediate program of expansion, under which construction starts during 1970 are planned on 9 new Inns and 5 additions, comprising 2,520 rooms in total. This has been made possible by medium and long term loan commitments negotiated during 1968 and 1969 and by lease back arrangements which have been executed with both individual and institutional investors. The lease back form of financing is relatively uncommon in the industry and has been made available to your Company as the result of the financial success achieved in its operations. In many instances the lease agreements negotiated provide purchase options to the Company on favourable terms.

SALES



During the year 6 new Inns were completed, bringing the total number in operation at October 31, 1969 to 23, and this, together with additions to the Toronto East and St. Catharines Holiday Inns, added 941 rooms to your Company's facilities. Each of the new Inns opened has experienced a high degree of public acceptance, significantly adding to the earnings potential of the Company. The number of rooms in operation at year end was 3,499 ,and this total has recently been supplemented by the opening of the beautiful 96 room Holiday Inn of Kenora, situated on the shores of the Lake of the Woods. At the time of writing this report, construction was in progress on 7 new Inns, and a 49 room addition to the Holiday Inn of Peterborough, which when completed, will add 1,874 rooms to the above total.

NET EARNINGS



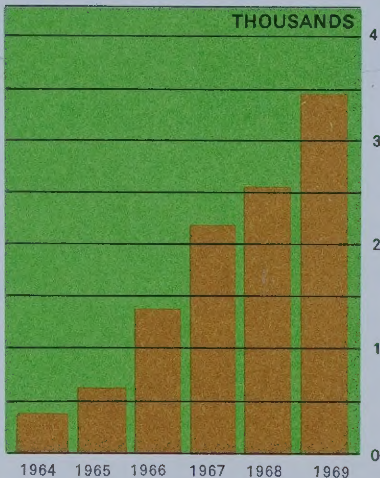
Your management has been successful in negotiating an agreement for the operation of a 300 room hotel to be built in Madeira. This Portuguese island is a long established year round resort area and promises to be an important addition to our European operations.

A development of great significance for the future is the opportunity your Company now has to expand into all other Provinces of Canada. This has resulted in a vigorous program of Canada wide growth. I am pleased to report that negotiations have been completed for the acquisition of an existing hotel in Edmonton, Alberta, and for two Inns which will be built in Winnipeg, Manitoba. The Edmonton Inn will be opened in the month of May 1970 following an addition and renovations which will bring it to the high standard established for other Holiday Inns throughout the chain. The Winnipeg Inns will, when completed, establish an important link between the Ontario Inns of the Company and those which will be added throughout the Western Provinces.

The worldwide operations of the Holiday Inn system now comprise 1,176 Inns with more than 160,000 rooms and the pace of expansion is accelerating. As this number grows, even greater access to the travelling public will result through the Holidex reservations system, providing substantial benefits in occupancy to your Company. We are, apart from Holiday Inns, Inc., operating the largest number of rooms in the system under one management, a position your management intends to maintain through its continual evaluation of sites on which new Inns may be built and profitably operated.

The Directors carefully considered whether a dividend should be declared on the common shares having regard to high interest rates and the program of expansion I have outlined in this report. They have concluded that the best interests of the shareholders and the Company would be served if the declaration of such a dividend was not made at this time.

TOTAL ROOMS

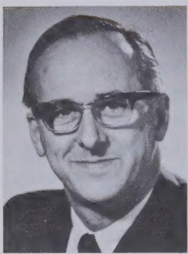


The growing family of Commonwealth Holiday Inn employees includes many with long service, who joined the Company in the formative years and who have now progressed through an extensive training program to executive and managerial positions, imparting their knowledge of the Holiday Inn system to the staff of each new Inn opened. The devoted service of all employees to the Company and its guests during the past year has contributed greatly to making 1969 a year of profitable growth, and allows your management to enter the current year with confidence and optimism.

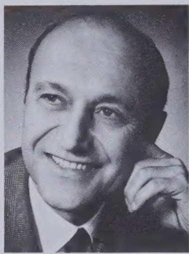
CHAIRMAN OF THE BOARD
AND PRESIDENT

February 1970.

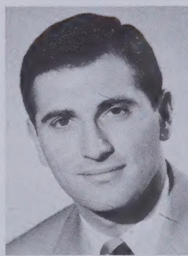
Other Officers and Executives



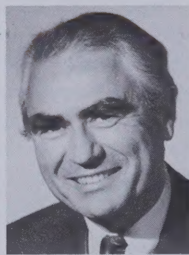
ANDRE R. PETTIGREW
Vice President (Finance) and Treasurer



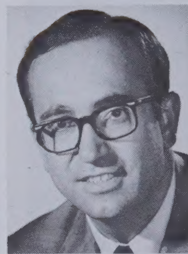
EDWARD C. CAMPBELL
Vice President (Senior Administrator of Operations)



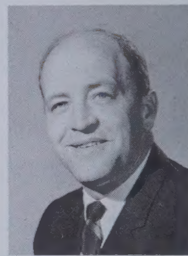
ROBERT A. RUBINOFF
Vice President, Executive Director of European Operations



PHILIP EPRILE
President, Associated Inn-keepers Supply Company



RAYMOND R. YELLE
Vice President—Caribbean Finance and Development



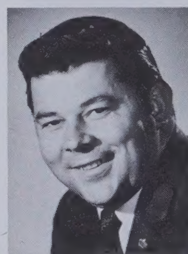
CHARLES H. KING
Secretary

JEANETTE M. STEVENS
Assistant Secretary

W. HARVEY GLEASON
Controller

HANS DEMUTH
Assistant Vice President and Director of Food and Beverage

RAYMOND T. DOMENICO
Assistant Vice President and District Director



JAMES A. HAVERS
Assistant Vice President and District Director

JOHN B. PLEASENCE
Assistant Vice President and District Director

THEODORE SMITS
Assistant Vice President, Director of Construction and Maintenance

JOHN C. LOGAN
Director, Projects Development

WILLIS G. McNEILLY
Director of Marketing

CHARLES A. CLINE
Director of Personnel

FRANK E. GORMAN
General Manager Commonwealth Holiday Estates

Commonwealth Holiday Inns of Canada Limited and its subsidiaries

Consolidated Statement of Earnings

year ended October 31, 1969 (with comparative amounts for 1968)

	1969	1968
Sales	$25,431,843	$17,654,355
Earnings from operations before charges as set out below	$ 7,240,624	$ 4,982,577
Rent—leased Inns	1,952,385	1,491,678
Depreciation *(note 2)*	1,058,918	863,366
Amortization of deferred expenses *(note 3)*	319,715	174,737
Interest on long term debt	1,400,009	1,116,137
	4,731,027	3,645,918
Earnings for year before taxes on income	2,509,597	1,336,659
Taxes on income—deferred *(note 6)*	1,333,000	695,000
Consolidated net earnings for year	$ 1,176,597	$ 641,659

Consolidated Statement of Retained Earnings

year ended October 31, 1969 (with comparative amounts for 1968)

	1969	1968
Balance beginning of year	$1,061,981	$ 501,644
Add consolidated net earnings for year	1,176,597	641,659
	2,238,578	1,143,303
Deduct:		
Dividends paid on preference shares	54,437	55,250
Expenses in connection with the issue of common shares (net of income taxes of $43,000)	69,630	
Write-off of incorporation expenses		26,072
	124,067	81,322
Balance end of year	$2,114,511	$1,061,981

(See accompanying notes to the consolidated financial statements)

Commonwealth Holiday Inns of Canada Limited and its subsidiaries

(Incorporated under the laws of Ontario)

ASSETS	1969	1968
Current:		
Cash and short term deposits	$ 880,734	$ 1,300,000
Accounts receivable less allowance for doubtful accounts of $114,721 in 1969 and $50,000 in 1968	1,964,747	983,546
Inventories of beverages, food and supplies—at the lower of cost or market	536,675	307,194
Prepaid expenses	402,592	330,029
	3,784,748	2,920,769
Fixed—at cost *(notes 2 and 12)*		
Land	2,292,239	1,689,365
Buildings and leasehold improvements	17,254,512	12,389,193
Furniture and equipment, roadways, swimming pools, etc.	9,838,339	7,637,310
	29,385,090	21,715,868
Less accumulated depreciation	3,010,886	2,473,296
	26,374,204	19,242,572
Inns under construction—at cost (including cost of land of $1,403,011 in 1969 and $1,498,247 in 1968)	3,132,472	3,029,279
Deferred expenses *(note 3)*	1,968,780	1,258,566
Franchises—Holiday Inns, Inc.—at cost	770,645	600,457
	$36,030,849	$27,051,643

On behalf of the Board

D. Rubinoff, Director

Albert E. Shepherd, Director

(See accompanying notes to the consolidated financial statements)

Consolidated Balance Sheet October 31, 1969

(with comparative amounts for 1968)

LIABILITIES		1969	1968
Current:			
Due to bankers			$ 38,247
Accounts payable and accrued charges		$ 2,150,444	1,421,865
Taxes payable		223,617	99,970
Long term debt instalments due within one year *(note 4)*		1,227,173	768,684
		3,601,234	2,328,766
Long term debt *(note 4)*		23,820,382	22,314,080
Less instalments due within one year		1,227,173	768,684
		22,593,209	21,545,396
Deferred profit on sale of fixed assets *(note 5)*		517,933	
Deferred income taxes *(note 6)*		2,535,000	1,245,000
Shareholders' equity:			
Capital *(note 7)* —			
Authorized:			
4,150 6½% cumulative redeemable convertible sinking fund preference shares with a par value of $200 each (4,250 shares in 1968)	830,000		
7,010,000 common shares of no par value (7,000,000 shares in 1968)			
Issued and full paid:			
4,150 preference shares (4,250 shares in 1968)		830,000	850,000
2,411,488 common shares (2,050,063 shares in 1968)		3,838,962	20,500
		4,668,962	870,500
Consolidated retained earnings *(note 8)*		2,114,511	1,061,981
		6,783,473	1,932,481
		$36,030,849	$27,051,643

Commonwealth Holiday Inns of Canada Limited and its subsidiaries

Consolidated Statement of Source and Application of Funds

year ended October 31, 1969 (with comparative amounts for 1968)

	1969	1968
Working capital (deficit) beginning of year	$ 592,003	$ (963,751)
Source of funds:		
Operations—		
Consisting of:		
Consolidated net earnings for year	1,176,597	641,659
Add or (deduct)—		
Deferred income taxes	1,333,000	695,000
Depreciation and amortization	1,378,633	1,038,103
Other non-cash items	(11,704)	
	3,876,526	2,374,762
Mortgages and other long term loans	8,299,602	8,772,879
Sale of shares	3,798,462	
Sale of fixed assets (net of mortgages assumed on sale)	930,104	
	16,904,694	11,147,641
Application of funds:		
Purchase of fixed assets	10,875,494	7,372,722
Deferred expenses	1,029,929	824,653
Franchises	170,188	336,065
Reduction of long term debt	5,070,505	1,003,197
Dividends	54,437	55,250
Expenses of share issue	112,630	
	17,313,183	9,591,887
Increase (decrease) in working capital	(408,489)	1,555,754
Working capital end of year	$ 183,514	$ 592,003

(See accompanying notes to the consolidated financial statements)

Auditors' Report

To the Shareholders of
Commonwealth Holiday Inns of Canada Limited.

We have examined the consolidated balance sheet of Commonwealth Holiday Inns of Canada Limited and its subsidiaries as at October 31, 1969 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at October 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON GORDON & CO.
Chartered Accountants.

London, Canada.
January 15, 1970.

Commonwealth Holiday Inns of Canada Limited and its subsidiaries

Notes to the Consolidated Financial Statements

October 31, 1969

1. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the company and its wholly owned subsidiaries, Associated Innkeepers Supplies Limited and Allied Innkeepers (Bermuda) Limited.

The accounts of certain branches of the company are carried in East Caribbean currency. These are included in the attached consolidated financial statements in Canadian dollars based on the current rate of exchange.

2. Fixed assets

A major portion of the real estate and furniture and equipment is pledged to secure mortgages and other long term debt.

For accounting purposes depreciation is computed on a straight-line basis at the following annual rates:

Building and leasehold improvements	*2½%
Paving	4%
Furniture and equipment	9%
Swimming pools	10%

*A higher rate is applied to leasehold improvements if, at the time of the expenditure, the remaining term of the lease plus one renewal period is less than 40 years.

3. Deferred expenses

These consist of:

	Costs and expenses incurred to date	Amortization to date	Unamortized balance October 31, 1969
Deferred opening expenses	$2,068,729	$526,875	$1,541,854
Deferred cost of renovations	400,523	68,723	331,800
Deferred cost of borrowing	286,005	190,879	95,126
	$2,755,257	$786,477	$1,968,780

The company follows the practice of deferring opening expenses, costs of major renovation programs and costs of borrowing and of amortizing such costs and expenses as follows:

Opening expenses —During the first sixty months commencing with the month following the opening of each Inn.

Cost of renovations—During the first sixty months commencing with the second month following completion of the program for each Inn.

Cost of borrowing —During the term of the respective borrowings.

4. Long term debt

Long term debt outstanding at October 31, 1969 consists of:

	Amount	Due within one year
(a) Real estate mortgages payable:		
6%-10% first mortgages due on various dates from 1970 to 1977	$10,190,537	$317,867
4%-11% second mortgages due on various dates from 1970 to 1973	973,517	224,527
	11,164,054	542,394
(b) Chattel mortgages payable:		
11% and 12% chattel mortgages due on various dates from 1970 to 1973	2,062,608	375,461
Less deferred interest included therein	397,992	158,145
	1,664,616	217,316
Sundry lien notes due in varying amounts to 1977 (after deducting deferred interest included therein)	76,736	22,829
	1,741,352	240,145
(c) Sinking fund debentures payable:		
7½% Senior debentures maturing December 1, 1979 (sinking fund payment of $50,000 in 1970, $75,000 in 1971 and 1972, $100,000 in each of the years 1973 to 1979 and $50,000 on maturity)	950,000	50,000
7% Series "A" subordinated debentures maturing June 30, 1974 (sinking fund payments of $200,000 in each of the years 1970 to 1973 and $200,000 on maturity)	1,000,000	200,000
6% Series "B" subordinated debentures maturing June 30, 1979 (sinking fund payments of $40,000 in each of the years 1975 to 1978 and $40,000 on maturity) .	200,000	
	2,150,000	250,000
(d) Secured notes payable:		
6⅞% secured notes maturing June 30, 1991, repayable at an amount equal to 5.03234% of the highest aggregate principal amount of notes issued commencing December 31, 1974 (secured by a first mortgage and first floating charge on certain property) ($825,000 U.S.)	866,102	
(e) Due to bankers:		
Repaid subsequent to year-end from proceeds of committed mortgage loan (amount due within one year relates to replacement financing)	3,640,000	62,000
Long term bank loan repayable in monthly instalments of principal and interest of $17,999 (secured by a 8½% first mortgage and first floating charge debenture on certain property)	1,180,924	117,485
7% term bank loan repayable in quarterly instalments of $3,787 . .	57,950	15,149
Term bank loan due in November, 1972	3,000,000	
	7,878,874	194,634
	$23,820,382	$1,227,173

5. Deferred profit on sale of fixed assets

During the year the company entered into a sale and leaseback agreement in respect of one of its Inns. The gain on the sale amounting to $528,199 has been deferred and will be taken into income over the term of the lease. During 1969, $10,266 of this amount was credited to operations leaving a balance of $517,933 as at October 31, 1969 which amount is included in the accompanying consolidated balance sheet under the heading "Deferred profit on sale of fixed assets".

6. Deferred income taxes

The income tax provision for the company has been based on income for the year as reported in its accounts. As the company claims for income tax purposes deferred expenses as incurred and capital cost allowances in excess of depreciation, no taxes on income for the year are currently payable and accordingly the entire provision has been deferred.

7. Capital

The 4,150 authorized and issued preference shares may be purchased for cancellation at any time if obtainable or are redeemable on or after May 15, 1976 at $214 per share until May 15, 1983 and $207 per share thereafter, provided that the tangible junior capital (as defined in the trust indentures) immediately after such redemption is not less than $1,750,000. Prior to May 15, 1976 preference shares may be redeemed at $214 per share provided the book value of the common shares at the time of redemption is not less than 250% of the par value of the preference shares. As long as any preference shares are outstanding the company is required in each year commencing May 15, 1971 to set aside in a sinking fund to be used for the redemption of the preference shares an amount equal to 5% of the par value of the issued preference shares.

During the year ended October 31, 1969 the company issued 350,000 common shares to underwriters for $3,783,500 cash, 1,425 common shares for $14,962 cash under the employee share option plan and 100 preference shares were converted into 10,000 common shares under conversion privileges attaching to the preference shares.

As at October 31, 1969 additional common shares are reserved as follows:

(a) For issuance at $2 per share under share purchase warrants expiring June 30, 1978 issued to holders of the 7½% senior debentures	250,000
(b) For issuance to employees at $10.50 per share	18,575
(c) For issuance to Holiday Inns, Inc. at $3 U.S. per share under share purchase warrants exercisable on a cumulative basis as to 813,734 shares during each twelve month period commencing November 1, 1969 and expiring November 1, 1978	*3,254,937
(d) For issuance to holders of secured notes at $8 per share under share purchase warrants exercisable from November 1, 1972 and expiring November 1, 1984	** 20,625
	3,544,137

Note: In addition to the common shares reserved for above, an additional 415,000 common shares may be issued under conversion privileges attaching to the preference shares.

*Under the provisions of these warrants, if prior to November 1, 1978 the company should have common shares outstanding or reserved for the exercise of warrants or options granted or for conversion privileges in the aggregate greater than 6,500,000, shares, then the company is required to grant to this warrant holder additional warrants to purchase common shares without further consideration so that the warrant holder will hold or have exercised warrants for the purchase of common shares equal to 50.075 percent of the total common shares outstanding or reserved. The warrant holder concerned has waived its right to receive warrants for the purchase of 50,026 additional common shares without consideration to which it would otherwise become entitled if the company should issue the additional share purchase warrants referred to in the following paragraph and has agreed to accept instead warrants for the purchase of 50,026 common shares at $8 per common share.

**Under the provisions of an agreement which the company has executed for the borrowing of $8,500,000 U.S., the company has agreed to issue to the lenders at the time funds are actually received, additional warrants expiring November 1, 1984 for the purchase of up to 200,000 common shares at $8 per share. During the year ended October 31, 1969, the company borrowed $825,000 U.S. under this agreement and thereupon issued 20,625 warrants. The 179,375 warrants remaining may be issued from time to time as the balance of the funds are received.

8. Restriction on payment of dividends, etc.

The company has covenanted in the trust indentures securing its sinking fund debentures not to declare any dividends on any of its shares (other than stock dividends) and not to redeem or retire any class of its capital stock or to make any other distribution to shareholders unless after giving effect to such action the sum of the amounts declared as dividends subsequent to March 31, 1966 plus the amounts applied by the company and its subsidiaries subsequent to March 31, 1966 to redeem shares (after crediting against such amount the proceeds of any sale of shares made substantially concurrently therewith) will not be in excess of consolidated net earnings (as defined in the trust indentures) of the company and its subsidiaries for the period from March 31, 1966 to the date of such payment. Also, the company may not declare any dividends if the tangible junior capital (as defined in the trust indentures) is less than $1,750,000.

As at October 31, 1969 the consolidated net earnings (as defined) from March 31, 1966 exceeded amounts declared as dividends since that date and the tangible junior capital (as defined) exceeded $1,750,000.

9. Commitments

The cost of the building program to which the company is currently committed has been estimated at $7,800,000. No liability in connection with the above capital expenditures has been reflected in the accompanying consolidated balance sheet. Particulars of arrangements for additional financing are set out below.

The company has entered into an agreement to lease an Inn in Guadeloupe and to acquire a 27% interest, at a cost of approximately $215,000, in the company formed to construct and lease the Inn.

As at October 31, 1969 the company had made arrangements for additional financing of up to $11,226,000 as follows:

(a) Additional first mortgage loans	$ 476,000
(b) Additional bank loans (repayable by November 1972)	2,500,000
(c) Additional loans available from institutional lenders (undrawn balance of $8,500,000 U.S. referred in note 7)	8,250,000
	$11,226,000

10. Long term leases and fees

The company has entered into agreements to lease properties to be operated as Inns for periods varying from 10 to 66 years at total minimum rentals for the remaining terms of the leases of approximately $49,500,000. Total minimum fixed rentals per year as at October 31, 1969 approximate $2,300,000. In the case of certain leases, increased rentals may be payable if Inn revenues exceed specified amounts. Certain leases provide the company with options to purchase the leased properties.

Under its agreements with Holiday Inns, Inc. the company is required to pay royalties and other fees which currently amount to approximately $565,000 annually. It has also entered into miscellaneous equipment leases which require annual rental payments of approximately $310,000.

Under the terms of the agreement relating to the 6⅞% secured notes, the company has agreed not to permit minimum annual lease obligations on real property located in Canada and continental United States to exceed 12% of the net book value of the company's fixed assets located within these two countries. As at October 31, 1969 these minimum annual lease obligations were less than 12% of the net book value of the applicable fixed assets.

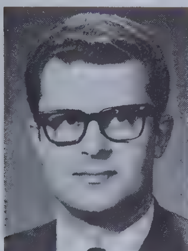
11. Executive remuneration

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers amounted to $231,899 for the year ended October 31, 1969 ($170,149 in 1968). This remuneration includes directors' fees of $2,148 for 1969 and nil for 1968.

12. Appraisal value of real estate.

Land and buildings included in fixed assets in the accompanying consolidated balance sheet at a net book value of $18,522,630 were appraised during 1969 by Montreal Trust Company at $27,237,648 on a net replacement cost basis. The above amounts do not take into account values relating to leased properties, furnishings or values attributable to the Holiday Inn franchises.

Innkeepers

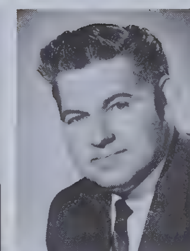

JOHN PETERS
Barrie


ERWIN RIECK
Brantford


BERNHARD KAINER
Chatham


LEWIS BLUM
Hamilton


ROGER CROXALL
Hespeler


DEREK TOMS
Huntsville


FRED PUMP
Kenora


G. LEYENDECKERS
Kingston


LLOYD FOSTER
Kitchener


ISAAC SISKIND
London Downtown


BERT BORNHOEFT
London South


PETER VANDENBERG
Oakville


CLAUDE LEFEBVRE
Ottawa


SPENCER BROWN
Peterborough


ROBERT BECKER
St. Catharines


ANTHONY MIELE
Thunder Bay


ANDRE ROUSSEAU
Toronto Don Valley


JOSEPH SLOMKA
Toronto East


RUDY BERGER
Toronto West


GORDON McKAY
Windsor


GARY DIXON
Pontiac, Mich.


HAROLD LEVIN
Port Huron, Mich.


E. SCHWANNECKE
Antigua


CYRIL CLARKE
Bridgetown, Barbados


MRS. MONICA ANDERSEN
Innkeeper at Large


DOUGLAS HENDRY
Innkeeper at Large


DONALD McAFEE
Innkeeper at Large


DERIO NICHOLI
Innkeeper at Large

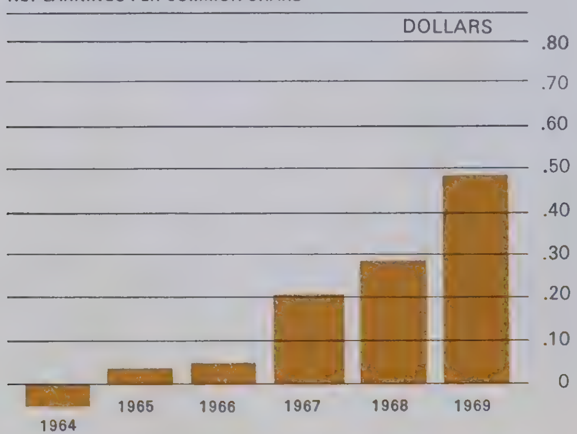
Commonwealth Holiday Inns of Canada Limited and its subsidiaries
Six-year Financial Review

	1969
RESULTS FOR THE YEAR	
Sales	$25,431,843
Earnings Before Taxes on Income	2,509,597
Provision for Income Taxes	1,333,000
Net earnings for the year*	1,122,160
Per Common Share*	.48
Cash Flow from Operations**	3,876,526
Per Common Share	1.65
Depreciation and Amortization	1,378,633
Capital Outlays	10,875,494
YEAR END POSITION	
Working Capital	$ 183,514
Fixed Assets at Cost***	32,517,562
Total Assets	36,030,849
Long Term Debt	22,593,209
Shareholders' Equity	6,783,473
GENERAL STATISTICS	
Preference Shares Outstanding	4,150
Common Shares Outstanding	2,411,488
Inns in Operation	23
Rooms in Operation	3,499

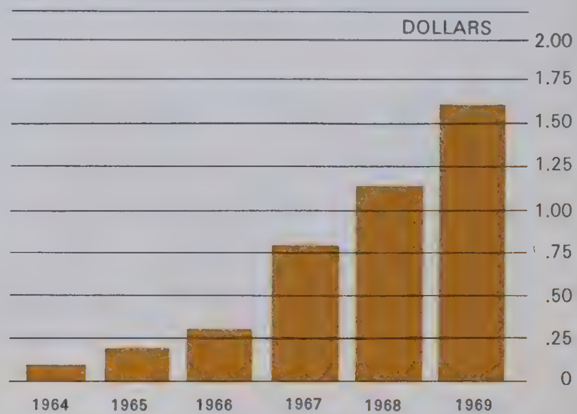
*After dividends on preference shares disregarding unexercised options and conversions, and calculated on average common shares outstanding during the period.

**Cash flow consists of net earnings before dividends on preference shares plus non-cash charges for depreciation, amortization and deferred taxes.

NET EARNINGS PER COMMON SHARE



CASH FLOW PER COMMON SHARE

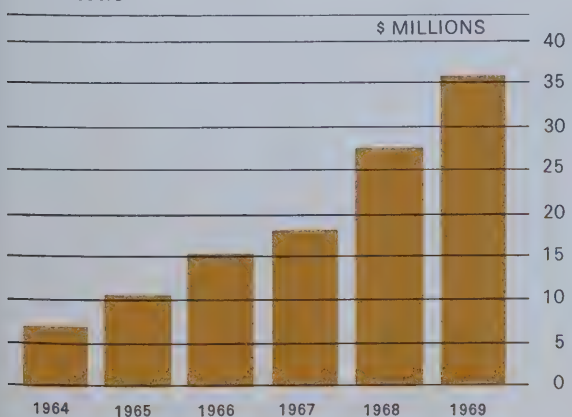


1968	1967	1966	1965	1964
$17,654,355	$12,453,855	$ 7,062,421	$ 3,567,315	$ 2,650,583
1,336,659	917,178	226,704	105,731	(113,057)
695,000	481,300	122,000	55,000	(56,900)
586,409	405,997	112,243	50,731	(56,157)
.29	.20	.05	.03	—
2,374,762	1,726,137	691,114	383,797	145,634
1.16	.84	.34	.19	.07
1,038,103	777,813	477,871	277,066	270,791
7,372,722	3,224,369	5,053,238	3,081,018	550,000
$ 592,003	$ (963,751)	$ (421,139)	$(1,447,018)	$(2,052,035)
24,745,147	17,273,501	13,967,198	8,965,283	6,009,336
27,051,643	17,856,057	15,596,668	10,501,956	6,729,488
21,545,396	13,775,714	12,113,550	7,462,051	3,895,668
1,932,481	1,372,144	1,015,377	52,634	1,903
4,250	4,250	4,250	—	—
2,050,063	2,050,000	2,050,000	2,000,000	2,000,000
17	14	10	5	3
2,558	2,166	1,441	639	440

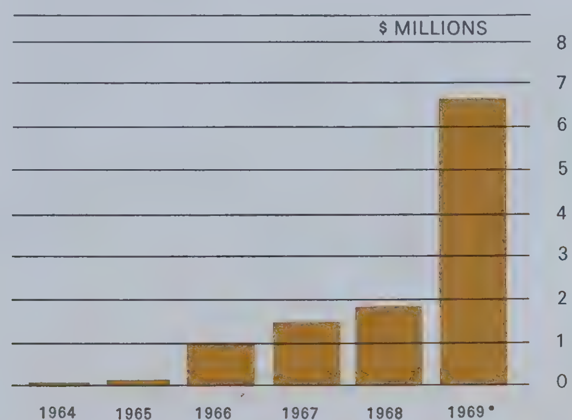
***Includes construction in progress.

NOTE: 1969 amounts shown under Year End Position and General Statistics are after giving effect to issuance and sale to underwriters of 350,000 common shares on December 16, 1968.

TOTAL ASSETS



SHAREHOLDERS' EQUITY



*After giving effect, as of December 16, 1968, to issuance and sale to underwriters of 350,000 common shares for $3,783,500.

North American Inns of . . .

Commonwealth Holiday Inns of Canada Limited:

Open:

- Toronto (3)
- Ottawa
- Hamilton
- London (2)
- Windsor
- Barrie
- Brantford
- Chatham
- Huntsville
- Kenora
- Kingston
- Kitchener
- Oakville
- Peterborough
- St. Catharines
- Thunder Bay
- Hespeler — Galt

Michigan, U.S.A.

- Pontiac
- Port Huron

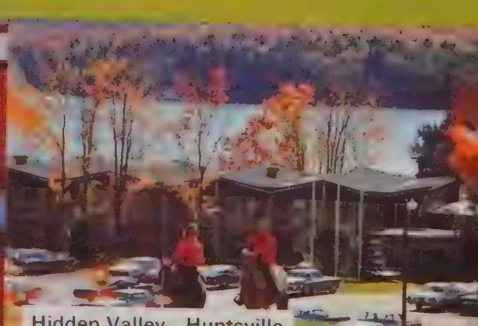
Under construction:

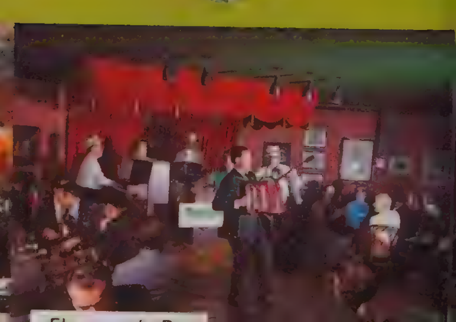
- Edmonton (opening Spring 1970)
- Sudbury (opening Summer 1970)
- Toronto—Civic Square
- Toronto—Yorkdale

Under Planning:

- Ottawa—Downtown
- Belleville
- Oshawa
- Toronto—Airport
- Sarnia
- Sault Ste. Marie
- Winnipeg—Downtown
- Winnipeg—Airport
- Lethbridge
- Whistler Mountain, B.C.
- Vancouver
- Victoria


Don Valley Guest Room


Hidden Valley—Huntsville

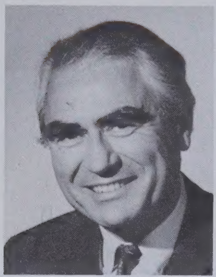


Savoir Faire Dining Room

Kenora

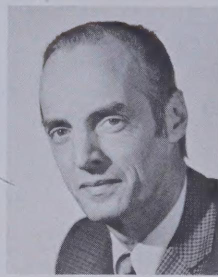
Domed Pool at Don Valley

Associated Innkeepers Supply Company



PHILIP EPRILE
President

PHILIP M. BARNETT
General Manager



JOHN S. HARRINGTON
Director, Contract Sales

Dining Room - Holiday Inn - St. Lucia

Living Room - Apartment project.

This division of Commonwealth Holiday Inns of Canada Limited was formed in 1965 to design and equip new Holiday Inns of the Company and to carry out regular renovation programs for existing Inns. The scope of its operations has since been expanded to include similar services to other hotel groups, institutions, commercial and public buildings.

A complete staff of design and decorating consultants together with procurement specialists are located in the offices of the Company at 140 Kendal Avenue, Toronto 4, Ontario. The many years of experience of its personnel in the design and decorating field are reflected in each of the Holiday Inns operated by your Company in Ontario, and in the Caribbean Islands. Examples of their distinctive work are shown on this page—also on pages 16 and 17 of this Report.

Two design awards were received by the Company during 1969 in a competition held annually for newly completed Holiday Inns throughout the world. The Inns receiving recognition were the Holiday Inn of Don Valley, Toronto and the Holiday Inn of Barbados, which were awarded the highest and the third highest design award in their classification. The staff of Associated Innkeepers Supply Company was responsible for interior and exterior decor and the equipping of both of these award-winning Inns.

Total volume of the division during the past year in both contract sales and in furnishing and equipping Inns, approximated $4,000,000. During 1969 contract sales increased substantially over 1968, confirming the excellent growth potential of this portion of their business. Plans are nearing completion to relocate the offices and warehouse of Associated Innkeepers Supply Company into larger premises, to allow more efficient handling of increased business resulting from expansion plans of Commonwealth Holiday Inns of Canada Limited and further anticipated increases in the volume of contract sales.

Commonwealth Holiday Inns of Canada Limited
Expanding on two continents

ANTIGUA—Open

BRIDGETOWN, BARBADOS—Open

GRENADA—Opening 1970

ST. LUCIA—Opening 1970

PORT OF SPAIN, TRINIDAD—Under construction

PLYMOUTH, ENGLAND—Under construction

SEAWELL, BARBADOS—Planned

MADEIRA, PORTUGAL—Planned

Commonwealth Holiday Inns of Canada Limited
Part of the Great Family of Holiday Inns . . . the World's Innkeeper